



**WASHINGTON
REINVESTMENT
ALLIANCE**

2407 1st Avenue, Suite 200
Seattle, WA 98121-1311
(206) 443-9935 ext. 123
fax: (206) 443-9851
email: reinvest@wofnet.com

Executive Committee

Sharon Lee
Low Income Housing Institute

Phillip Webb
*Evergreen Community
Development Association*

Steering Committee

Peggy Burrell
*Spokane Neighborhood Action
Programs*

Shaw Canale
Cascadia Revolving Loan Fund

Madelyn Carlson
*Yakima Valley Farmworker's
Clinic*

Tom DiDomenico
*Benton-Franklin Council of
Governments*

Diana Long
King Center

John Moon
*Office of Economic Development,
City of Seattle*

Andy Reid
*Spokane Low Income Housing
Consortium*

Jeff Robinson
*MLK Housing Development
Association/Main Street*

George Staggers
*Central Area Development
Association*

Jim Thomas
Community Capital Development

Mark Tuohy
Volunteers of America

April 6, 1999

Donald V. Hammond
Fiscal Assistant Secretary
Office of the Fiscal Assistant Secretary
US Department of Treasury, Room 2112
1500 Pennsylvania Avenue, NW
Washington DC 20220

Dear Mr. Hammond:

On behalf of the Washington Reinvestment Alliance (WRA), a coalition of over 65 organizations concerned with fair access to banking services for low-income individuals, I am writing to strongly oppose any involvement of check cashers, pawn shops, and other non-federally insured institutions in the EFT (Electronic Funds Transfer) program. This includes so-called voluntary accounts outside of the ETA (Electronic Transfer Account) option.

EFT could benefit working class and minority individuals and communities if it encourages a number of "unbanked" individuals to establish accounts with banks or thrifts. These business relationships could lead to more home and small business lending in traditionally under-served communities.

However, if check cashers and other non-federally insured institutions participate in the EFT program, WRA believes that the "unbanked" population receiving EFT will be pushed further away from mainstream financial institutions. According to the Treasury Department, the existing arrangements between banks and non-depository "payment service providers" require recipients of federal benefits and wages to use the offices of the payment service providers instead of the offices of the banks. These EFT recipients cannot establish relationships with tellers and other bank personnel that may lead to the opening of checking and savings accounts.

The voluntary, non-ETA accounts offered by check cashers and other payment service providers violate the mandate of the Debt Collection Improvement Act of 1996. The Act requires that the Treasury Department ensures that individuals receiving electronic payments have accounts at reasonable cost and with the same consumer protections as other account holders at depository institutions.

Treasury's descriptions of arrangements between banks and check cashers and other payment providers include examples of non-ETA accounts that would not be federally-insured. Therefore, some customers of a particular bank would have federal insurance protection if they had their government checks directly deposited into the bank. Other customers of the same bank, in contrast, would not have FDIC-insurance protection if they receive government payments through a check casher that has an arrangement with the bank. It is very likely that the first customer receiving direct deposit from the bank would be relatively affluent while the second consumer using a check casher would be low- or moderate-income income.

If Treasury permits fringe banker participation in EFT, many low- and moderate-income members of the "unbanked" population would be subject to usurious interest rates and fees of check cashers and pay day lenders that range from 50 to 500 percent annually. The Treasury Department, in its request for comments, documents that existing arrangements between banks and third party payment providers include a \$4 enrollment fee, a \$5.50 monthly maintenance fee, and a \$1 fee for each withdrawal or balance inquiry. This is more than three times the monthly fee of \$3 proposed by Treasury for the basic ETA account to be offered by banks and thrifts.

#57

198.

47



**WASHINGTON
REINVESTMENT
ALLIANCE**

2407 1st Avenue, Suite 200
Seattle, WA 98121-1311
(206) 443-9935 ext. 123
fax: (206) 443-9851
email: reinvest@wolfenet.com

Executive Committee

Sharon Lee
Low Income Housing Institute

Phillip Webb
*Evergreen Community
Development Association*

Steering Committee

Peggy Burrell
*Spokane Neighborhood Action
Programs*

Shaw Canale
Cascadia Revolving Loan Fund

Madelyn Carlson
*Yakima Valley Farmworker's
Clinic*

Tom DiDomenico
*Benton-Franklin Council of
Governments*

Diana Long
King Center

John Moon
*Office of Economic Development,
City of Seattle*

Andy Reid
*Spokane Low Income Housing
Consortium*

Jeff Robinson
*MLK Housing Development
Association/Main Street*

George Stagers
*Central Area Development
Association*

Jim Thomas
Community Capital Development

Mark Tuohy
Volunteers of America

An EFT system allowing fringe bankers will result in a wealth-drain from under-served communities. The small savings that members of the unbanked population have been able to accumulate will be sucked away by the unsavory practices of pay day lenders, check cashers, and other predatory actors in the fringe banking world. If EFT policy allows check cashers to participate, some 70,000 "unbanked" government recipients in the state of Washington could potentially be channeled to a less than desirable banking industry. This would eat away at the progress in reinvestment policies stimulated by CRA and the nation's fair lending laws.

Fringe bankers do not need the federal government's help in grabbing market share in minority and working class communities. Several studies have documented that check cashers already dominate in minority neighborhoods. For example, Greg Squires and Sally O' Connor of the University of Wisconsin find that banks outnumber check cashers 15 to 1 in white neighborhoods in Milwaukee. In contrast, there was one bank for every check casher in African-American neighborhoods. Breaking down the data further by income and race reveals even more glaring disparities. The Woodstock Institute found that check cashers outnumber banks by ratios higher than 10 to 1 in lower income, minority communities in Chicago.

Unscrupulous and exploitative practices of pay day lenders, pawn shops, check cashers, subprime lenders, and other non-federally insured institutions have been increasing significantly in the last few years. Restricting EFT access to banks and thrifts would help curb the excesses of fringe bankers by encouraging banks and thrifts to increase their presence in working class and minority neighborhoods. If the Treasury Department wishes to support the reinvestment stimulated by CRA and the fair lending laws, it needs to prohibit non-federally insured institutions from participating in the EFT system.

Thank you for considering the views of WRA's 67 community reinvestment organizations.

Sincerely,

Cindy Proctor,
WRA Coordinator